

## Message Text

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ORIGIN L-03

INFO OCT-01 EUR-12 ISO-00 SEC-01 JUSE-00 FTC-01 AID-05  
CIAE-00 COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
/060 R

DRAFTED BY L/EUR:DAGANTZ:EMB  
APPROVED BY L/EUR:DAGANTZ  
SEC:MR. FERRARA  
EUR/WE:MR. BEIGEL (PHONE)  
L-MR. HANSELL

-----160602Z 047046 /12

R 152054Z MAR 77  
FM SECSTATE WASHDC  
TO AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: BBAK, FR, US

SUBJECT: SEC AUDITS OF AMERICAN AFFILIATE COMPANIES ABROAD

REF: PARIS 4389

1. SEC HAS ADVISED THE DEPARTMENT THAT IT DOES NOT REPEAT NOT RETAIN FOREIGN AUDITING CONCERNS TO INVESTIGATE POSSIBLE ILLEGAL PAYMENTS AND PRACTICES BY FOREIGN SUBSIDIARIES OF U.S. COMPANIES, NOR DEMAND THAT ANY SPECIFIC COMPANY RETAIN A FOREIGN AUDITING FIRM. RATHER, THE AUDITING FIRMS MENTIONED REFTTEL HAVE PROBABLY BEEN HIRED BY AMERICAN PARENTS TO INVESTIGATE ACTIVITIES OF THEIR OWN FOREIGN AFFILIATES UNDER ONE OF THE THREE TYPES OF SITUATIONS DESCRIBED BELOW.

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2. (A) SOME U.S. COMPANIES WHICH HAVE BEEN MAKING ILLEGAL PAYMENTS HAVE AGREED WITH THE SEC TO A CONSENT DECREE WHICH PROVIDES IN PART FOR THE HIRING OF A SPECIAL COUNSEL AND AUDITOR TO CONDUCT A COMPREHENSIVE INVESTIGATION OF THE FIRM'S PRACTICES BOTH IN THE UNITED STATES AND ABROAD. SUCH AN INVESTIGATION COULD REQUIRE, INTER ALIA, THE RETEN-

TION BY THE COMPANY OF FOREIGN AUDITING FIRMS TO UNDERTAKE THE PORTION OF SUCH INVESTIGATIONS WHICH RELATE TO THE AMERICAN FIRM'S SUBSIDIARIES IN SPECIFIC FOREIGN COUNTRIES.

(B) OTHER FIRMS HAVE ENGAGED IN A SO-CALLED "VOLUNTARY" PROGRAM OF THE SEC WHEREBY THEY VOLUNTARILY ADVISE THE SEC OF KNOWN OR SUSPECTED IMPROPER PRACTICES. THIS PROCESS ALSO RESULTS IN AN INTERNAL COMPANY INVESTIGATION WHICH MAY IN TURN LEAD TO RETENTION BY THE COMPANY OF AUDITORS BOTH IN THE U.S. AND ABROAD.

(C) IN OTHER CASES THE BOARD OF DIRECTORS OF AN AMERICAN COMPANY ON ITS OWN INITIATIVE MAY DECIDE, IN VIEW OF THE FACT THAT IT DOES NOT REALLY KNOW WHETHER QUESTIONABLE PAYMENTS HAVE BEEN MADE BY THE PARENT COMPANY OR ITS SUBSIDIARIES, THAT IT SHOULD CONDUCT AN INTERNAL INVESTIGATION TO FIND OUT. A PARTIAL RESULT MAY BE TO ENGAGE FOREIGN AUDITING FIRMS TO LOOK INTO THE ACTIVITIES OF FOREIGN SUBSIDIARIES OR BRANCHES.

3. DEPARTMENT AGREES THAT POST SHOULD HAVE MORE INFORMATION ABOUT CURRENT SEC ACTIONS AND IS GIVING SERIOUS CONSIDERATION TO PROVIDING FURTHER GUIDANCE ALONG LINES REQUESTED PARA 4 REFTEL.  
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## Message Attributes

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**Original Handling Restrictions:** n/a  
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**TAGS:** BBAK, FR, US  
**To:** PARIS  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
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